



STATE OF ARIZONA

JANICE K. BREWER
GOVERNOR

EXECUTIVE OFFICE

March 31, 2011

The Honorable Kathleen Sebelius
Secretary
United States Department of Health and Human Services
200 Independence Avenue, S.W., Room 120-F
Washington, DC 20201

Dear Secretary Sebelius:

Thank you for meeting with me last month. I appreciated your candor and pledge to help states like Arizona better manage the quality and costs of their Medicaid programs. Your guidance has given my staff and me the opportunity to develop what I believe is a thoughtful and balanced approach to preserving our state's Medicaid program, with consideration for both beneficiaries and taxpayers. However, it cannot be successful without your help and willingness to grant additional flexibility.

Your partnership is critical to my efforts to preserve Medicaid coverage for more than one million Arizonans. My previous correspondence to you and your staff on this matter has clearly outlined the fiscal challenges the State has faced over the past several years. Over the past four years, while we have made unprecedented spending reductions in almost every other area of state government, Medicaid expenditures have increased by over 65 percent. These increases have occurred despite the fact that Arizona's Medicaid program is one of the most innovative in the nation; indeed, we have pursued or are pursuing almost every innovation you have suggested states consider. We must, therefore, have your assistance in making further changes to the program to assure its future sustainability.

In light of your assurance of flexibility, I have modified my initial proposal to preserve existing coverage to the greatest extent possible. But it will not be possible to achieve my proposed reforms – and limit the economic and human impact of necessary reductions – without your support.

Enclosed with this letter please find my amended request for a new Section 1115 Research and Demonstration Waiver ("Demonstration Waiver") for the period of October 1, 2011, through September 30, 2016.

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This Demonstration Waiver will allow the continuation of the Arizona Health Care Cost Containment System (AHCCCS) managed care model, as well as add new innovations to ensure its sustainability for the future.

The details of this new Demonstration Waiver are explained in the attached document. This submittal amends Arizona's package from September 27, 2010, and adds the reforms I have proposed as part of my plan to preserve our Medicaid program for Arizona's most needy while getting a handle on program costs over the long term.

To that end, the new Demonstration Waiver will include efforts to limit enrollment, incentivize personal responsibility and wellness, and modernize Medicaid benefits and payment processes as described below.

Enrollment Reforms

Spend Down Program

As previously submitted to you, the State intends to terminate the Medical Expense Deduction (or "spend down") program on October 1, 2011. A phase-down period (including suspended enrollment for this population) will begin May 1, 2011. Implementation of this change will be achieved through emergency rule authority and will include a 30-day public comment period. We recognize that, in order to implement this component (and others); the State will require a CMS-approved transition plan.

Enrollment Limits

My proposal retains coverage for Arizonans currently on Medicaid, but limits new enrollment of childless adults and higher-income parents (with incomes between 75 and 100 percent of the federal poverty level). For childless adults, the mechanism by which the State will achieve this will be through the termination of its existing childless adult program and an application for a new Demonstration Waiver. This new waiver will operate the program under an enrollment freeze and other amendments as outlined in this letter. The waiver transition will be seamless for those enrolled in the program. Please consider this Arizona's notification of its intent to terminate the existing program.

In order to phase-out the current Demonstration Waiver for childless adults, the State will need to freeze enrollment for childless adults beginning July 1, 2011. The new Demonstration Waiver for childless adults will maintain coverage for individuals already enrolled, while reducing state costs over time and focusing efforts on disease prevention and personal responsibility.

Although we have not received your response to my January 25, 2011, request for you to waive the Maintenance of Effort (MOE) requirements of the Patient Protection and Affordable Care Act, this proposal narrows that request. Specifically, I request you waive the MOE requirements to allow Arizona to implement an enrollment freeze on higher-income parents, as well as the implementation of a shorter redetermination process for parents.

Redeterminations

This proposal ensures that the Medicaid program serves only those who are eligible by employing a six-month redetermination process for childless adults and parents. This is a common-sense change that will not change coverage for anyone who remains eligible for the program and who completes a simplified redetermination process.

Personal Responsibility and Wellness Incentives

My proposal includes requirements and incentive strategies that will encourage individuals to take greater control of their health. It increases personal responsibility through the expansion of mandatory co-payments and the imposition of “no-show” penalties for missed appointments, which have long been commonplace in private commercial coverage. I believe these components are critical to ensuring that enrollees are making decisions that positively impact their health and well-being, and that they have a financial stake in those decisions.

Payment and Benefit Modernization

Payment Innovations

My proposal implements payment reform innovations that focus on quality of care so we can truly begin the hard work of “bending the health care cost curve.” For instance, we are pursuing models such as medical/health homes, which will improve the efficiency and quality of health care delivery, but are not feasible for the long-term under Medicaid’s current reimbursement structure. The proposal also seeks reimbursement for state Medicaid payments that should have been paid by Medicare, as it is critical to our ongoing state and federal partnership that each party pay its rightful share.

Benefit Changes

I propose new limits upon benefits that are prone to waste and abuse by eliminating non-emergency transportation for non-disabled adults living in urban areas. Benefits for the most needy – children, the disabled and residents of rural areas – would be unaffected.

Other components of my plan will require State Plan Amendments (SPAs), which will be submitted under separate cover. Some of these SPAs will include: (1) limits on inpatient hospital stays; (2) limits on other services, such as office visits; (3) reductions and changes to provider reimbursement.

Finally, I also propose the restoration of optional transplant services that were eliminated as part of the state’s FY 2011 budget. I have long said that restoration of these services is only possible through a comprehensive plan that reforms Arizona’s Medicaid program and ensures its long-term financial viability. I believe this is that plan. Therefore, I am asking the Legislature to authorize the restoration of optional transplant services. In the absence of state coverage for these services for the past six months, I have been grateful for the private financial support

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provided by individual Arizonans and the health care community and I extend to them my deep gratitude.

Other Changes

In addition to the above changes to the Demonstration Waiver, my Medicaid reform plan will include efforts to integrate care in the areas of behavioral health and children with special needs. I also propose continued support of the health care needs of individuals receiving care through Indian Health Services or tribally-owned 638 facilities by exempting benefit and eligibility limits that would simply shift costs to these fragile systems. Finally, I believe it is critical that Arizona continue its vigilant pursuit of fraud, waste and abuse within the Medicaid system, and I affirm continued attention to these vital efforts.

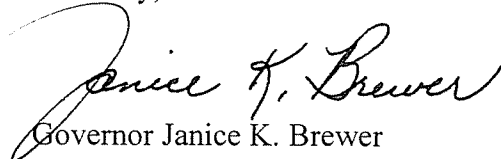
Some parts of this proposal are near-term changes that require immediate action, such as the phase-down and termination of the Medical Expense Deduction program. Other components, like payment reform and the integration of behavioral and physical health services, are longer-term in nature and designed to reduce the rate at which state health care spending increases to ensure affordability.

I am committed to working with you on the implementation of this new Demonstration Waiver. As I believe this plan demonstrates, my priority is to preserve and modernize Arizona's Medicaid program so that it continues to serve as a national model of cost-effective care for the states most vulnerable and continues as a leading example of a successful state-federal partnership. If Arizona is to successfully preserve its Medicaid program for the future, it will require a willingness on the part of the federal government to grant flexibility and freedom. Based on our correspondence and our recent meeting, I believe you share these goals and I am encouraged you will assist Arizona in achieving them.

I will do everything I can to ensure that you and your staff have the data and information you require to give this proposal due consideration. Please do not hesitate to contact me directly for anything you might need to assist in your evaluation.

Thank you again for the time you spent with me and thank you for your service to the nation.

Sincerely,



Janice K. Brewer

Governor Janice K. Brewer